Assembly Bill No. 1456

CHAPTER 413

An act to amend Section 779.36 of the Insurance Code, relating to credit insurance.

[Approved by Governor September 16, 1999. Filed with Secretary of State September 16, 1999.]

LEGISLATIVE COUNSEL'S DIGEST

AB 1456, Scott. Credit insurance: rates.

Existing law governing insurance provides for the regulation of credit life insurance and credit disability insurance. Existing law requires the Insurance Commissioner to adopt regulations by January 1, 1994, specifying prima facie rates based upon presumptive loss ratios for each class of credit life, credit disability, joint life, and joint disability insurance, as specified.

This bill would extend from January 1, 1994, to January 1, 2001, the time requirement for the commissioner to adopt these rules, would change the rate requirements, as specified, and would expand the scope of the rules to also include credit unemployment, credit property, joint credit unemployment, and joint credit property insurance. This bill would require the commissioner to annually make available to the public actual annual loss ratios under these provisions. It would also make several related changes.

The people of the State of California do enact as follows:

SECTION 1. Section 779.36 of the Insurance Code is amended to read:

779.36. (a) The commissioner shall adopt regulations that become effective no later than January 1, 2001, specifying prima facie rates based upon presumptive loss ratios, with rates which would be expected to result in a target loss ratio of 60 percent, or any other loss ratio as may be dictated after applying the factors contained in this subdivision, for each class of credit disability, credit unemployment, credit property, and credit life insurance. The prima facie rates shall be based upon loss experience filed with the commissioner, aggregated by class.

If any rate established under the commissioner's ratemaking authority produces actual loss ratios that are lower than the presumptive loss ratio, prospective rates may be adjusted, but no retroactive refunds shall be required. In order to provide insurers an opportunity to earn a fair and reasonable rate of return, the commissioner in the ratemaking process shall consider the following factors: acquisition costs, including commissions and other forms of compensation, expenses, profits, loss ratios, reserves, and other reasonable actuarial considerations.

(b) The commissioner shall provide for rate deviations. Upward and downward deviations shall be considered by the commissioner upon initiation by the department, or at the insurer's request at the time of review of annual experience reports filed by insurers, or as provided by regulations pursuant to Section 779.21. Requested deviation rates shall be deemed approved if not disapproved within 120 days after submission to the department for approval. Creditor and agent compensation shall be based upon the prima facie rate, and shall not be affected by a deviated rate pursuant to this subdivision. This subdivision does not prohibit an insurer from paying compensation that is less than the prima facie rate.

(c) The commissioner shall adopt regulations that become effective no later than January 1, 2001, specifying prima facie rates based upon presumptive loss ratios, with rates which would be expected to result in a target loss ratio of 60 percent, or any other loss ratio as may be dictated after applying the factors contained in this subdivision, for each class of joint life insurance, joint disability insurance, joint credit unemployment insurance, and joint credit property insurance. Those rates shall be expressed as a multiple of the prima facie rate for each class of insurance subject to subdivision (a), and shall be based upon loss experience filed with the commissioner, aggregated by class.

If any rate established under the commissioner's ratemaking authority produces actual loss ratios that are lower than the presumptive loss ratio, prospective rates may be adjusted, but no retroactive refunds shall be required. In order to provide insurers an opportunity to earn a fair and reasonable rate of return, the commissioner in the ratemaking process shall consider the following factors: acquisition costs, including commissions and other forms of compensation, expenses, profits, loss ratios, reserves, and other reasonable actuarial considerations.

(d) Loss ratios shall consist of the ratio of incurred losses to earned premiums in a specified reporting period.

(e) The commissioner shall, on an annual basis, make actual annual loss ratios under subdivisions (a) and (c) available to the public.

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